RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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THE PICTURE: In the age of the sound bite, the salesman-president, ten thousand lobbyists, the Washington press corp, the White House publicist and the liberal press, it's kind of difficult to know what's going on. It's hard to separate the hype and propaganda from the facts.

But we still have the markets, although even here we have to deal with a generous quantity of manipulation (and I'm talking about the new Clinton/Greenspan love affair and the three years of manipulation by the Fed to bring interest rates down while pumping up the money supply).

At any rate, the following areas are where I'm looking: (1) The highs for the major averages, (2) my Primary Trend Index, (3) interest rates and more specifically the bonds, (4) the dollar and (5) gold and the CRB Commodities Futures Index.

You can listen to every economic forecast that comes out of Washington, you can read the *Wall Street Journal* until you're blue in the face, you can watch CNBC until you're bleary-eyed -- but the real story will be in the items listed above.

It's hardly news to my subscribers that the stock market is expensive. It's as expensive as I've ever seen it. But it's got one obvious item going for it -- low, low and lower interest rates. Hopefully it's got another item going for it -- an improving economy. But wait -- the economy is a lagging indicator, the stock market, not the economy, is the leader. Therefore, when economists promise us that the economy's going to get better, does that constitute a plus for the stock market? Not in my book it doesn't, because if the stock market were to turn down here and continue down, you could take all the economic forecasts and toss them into a cocked hat.

Speaking of an expensive stock market, the March 8 *Barron's* contains an incisive article by Patrick Dolan documenting the thesis that this is the highest valuation ever put on the stock market -- higher ("more expensive") by far than 1929, 1987 or 1990. The article is well worth studying.

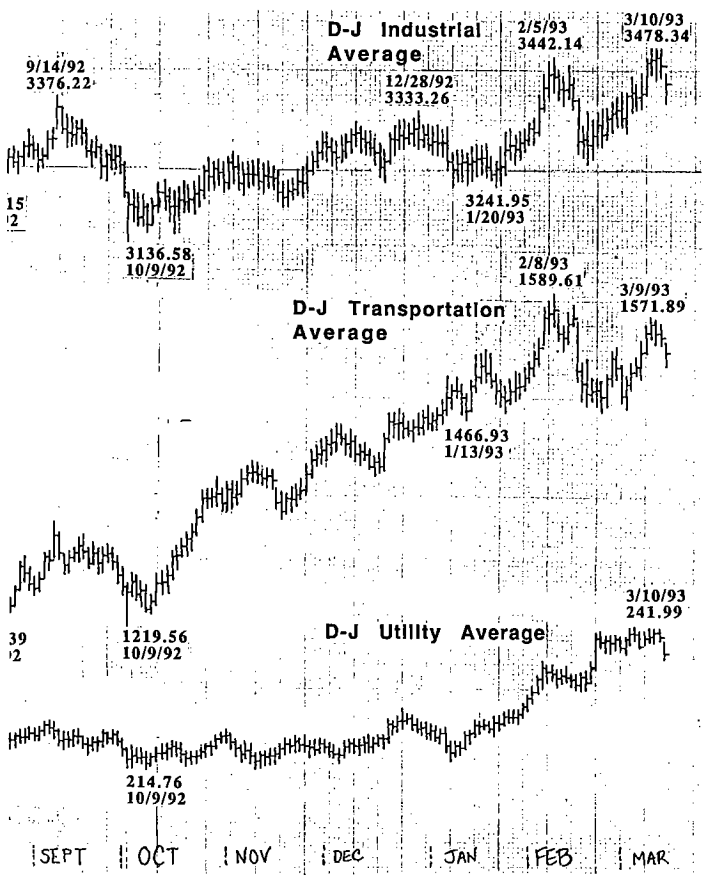
But overvaluation hasn't dampened the public's urge to buy. On March 9 the Dow rallied to a new high confirmed by new highs in the NYSE Composite, the S&P 500, the Value-Line Composite and the Wilshire 5000. It should be noted that most of the buying came from the funds. The funds are still receiving money in massive quantities, and this money is, in almost all cases, immediately put to work. "Putting to work" is fund parlance for buying stocks.

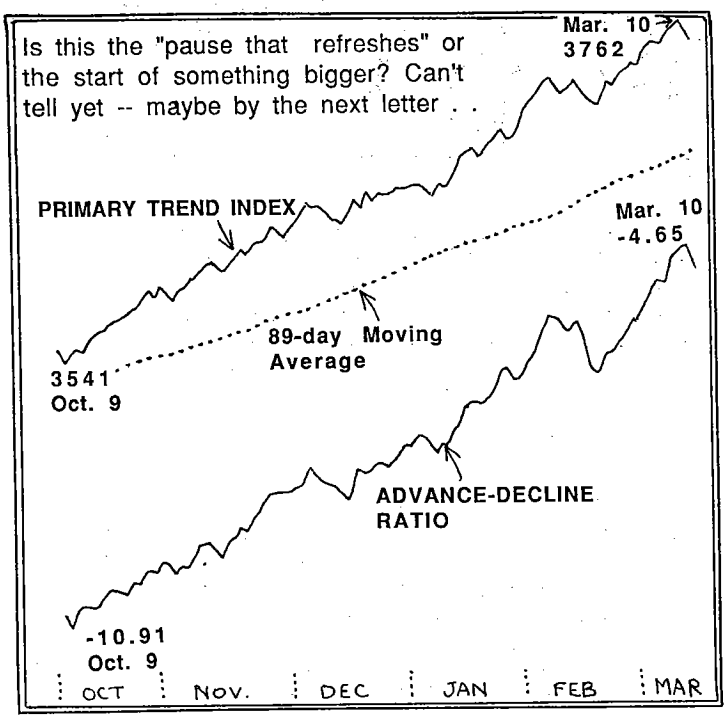
Mar. 5 DJIA 3404.58; PTI 3748; A-D Ratio -5.25
Mar. 12 DJIA 3427.82; PTI 3750; A-D Ratio -4.99
Dow Yield: 2.82%; Dow Price/Earnings: 35.5
Dow 200-day MA: 3299; Dow 30-day MA: 3371
Dow Times Book Value: 2.63; PTI 89-day MA: 3680
Percentage of Undervalued Blue-chips: 8%
Low Risk Buy Index: +84

One item seems to have been overlooked in the general enthusiasm to swap cash for stock certificates. The D-J Transportation Average recorded its all-time high of **1589.61** on February 5 accompanied by a record high for the D-J Industrials. The Averages then sold off, and on the next advance the Dow hit a new record high of 3472.12 (March 9). In the days following, the Dow continued somewhat higher. This time, however, the Transports halted at **1571.89.** In other words, they failed to confirm.

The non-confirmation may be no problem at all, and the Transports may yet confirm. But with the market at these rarefied heights, I watch every non-confirmation carefully. The old Chinese adage runs, "To walk a mile you must take the first step." That's also true of the stock market. For a bull or bear market to start, the Averages must take their first step -- or mis-step.

As for my Primary Trend Index, it has recently advanced to record highs (see page 2 chart). In fact, the current rise, which began last October 9, is the steepest I've witnessed in the 22 years I've been monitoring the PTI. What does this mean? It certainly is a profile of strength, but it also presents (based on the PTI's wide distance





above its 89-day moving average) the picture of an overbought situation.

I've been getting curious (or anxious) calls from subscribers asking "When will the advance end?" My answer, "This market has been a rising juggernaut. When a market develops a head of steam as this one has, there is no ideal way of determining when the top has arrived. We have our historic measurements of markets that are over-extended, the best of which are the valuation models. But remember, 'the market is a law unto itself,' and this rise will only end in one way -- EXHAUSTION. As far as I know, there is no way to pinpoint the day when a market is exhausted. It's always a question of 'how hot is hot?'"

Obviously, a major force under this market has been the power of declining interest rates, and here we must focus on the bonds. The bonds, the bonds, they've been in a wild, parabolic rise. When any item accelerates and finally goes vertical, it worries me (believe me, I'm not prejudiced -- I own plenty of bonds myself). But vertical moves tend to be terminal where securities are concerned. The low interest rates have "spooked" the public, and they've been frothing over bonds. They can't get enough of them. It reminds me of gold, when they couldn't get enough of it back in 1980.

The current action has caused the authoritative *Bank Credit Analyst* in its latest issue to state, "Mania conditions are evident in both the stock and bond markets. Speculation is heating up and a number of financial indicators show that the market has entered a mature and vulnerable stage."

STAMPEDE: There's one market phenomenon which nobody has mentioned but which has become a factor. The stock market action of recent months now qualifies as a "BUYING STAMPEDE." Veteran subscribers know that I define a buying stampede as follows: *"A buying stampede is in place when the advance-decline ratio rises five straight points without so much as a one point intervening correction."*

On October 9, 1992, my A-D ratio stood at -10.91. On February 26 of this year the A-D ratio closed at -5.86. There was no decline of as much as one full point between October 9 and February 26 (see page 2 chart of the A-D ratio). Thus, as of February 26 the market's rise qualified as a buying stampede.

What's the significance of this? The last two buying stampedes occurred back in January-March 1986 and December 1986 to March 1987, almost six years ago. A buying stampede very seldom ends a stock market rise. Usually, but not always, stampedes occur in series of two or even three. However, in the present case, because the price/dividend ratio for the market is so extreme, I am skeptical as to whether we can expect another stampede after the current one ends.

However, there's no doubt about this -- we have been witnessing a buying stampede. Buying stampedes are rare; they represent extended periods of very intense and concentrated buying. Buying stampedes are always associated with super-high expectations for both the stock market and the economy. Buying stampedes are usually followed by market corrections or extended periods of consolidation. But buying stampedes are seldom associated with the end of a bull market.

BREADTH: Have you wondered about the persistent, really amazing, strength in the advance-decline ratio on the NYSE -- strength even when the averages are down? Wonder no more. Following is the answer.

One thing we should learn from the performance of the stock market over the last few years is the POWER of declining interest rates (even if, as in the present case, they are manipulated by the Fed). Ponder these figures. First, 22% of all the stocks listed on the NYSE are preferred issues. Since the preferred have fixed dividends, they are obviously extremely sensitive to interest rates (they tend to act like bonds). Next,225 stocks or 8% of all NYSE listed stocks are bond funds, obviously extremely sensitive to interest rates. Finally, another 8% of NYSE issues are utilities, which are also very sensitive to rates.

So a surprising **38%** of all the stocks on the NYSE are directly connected to interest rates . Does this throw the broad NYSE advance-decline ratio off? I'd have to say that it does. The A-D ratio today is just not the same indicator that it was 10 or 20 years ago.

INFLATION? A major force under this market and the economy has been declining interest rates. It stands to reason then that the one thing the Fed is afraid of is inflation along with rising rates. If inflation is to appear, it will immediately show itself with a declining bond market. Therefore, on any hint of inflation, I would expect the Fed to attempt to hold down rates -- by buying bonds at an even higher rate than they are now doing.

The consensus opinion among economists is that there's literally no chance of inflation in the foreseeable future. That may be the consensus opinion, but it's notable that the commodities are beginning to stir. The CRB Commodities Futures Index, after moving in a tight sideways range since last July, has suddenly surged out of that range to rise to a new high for the year. This is confirmed by new 1993 highs in the *Journal of Commerce's* Spot Industrial Commodity Index. Thus, at least in the area of commodities and raw materials (and certainly in lumber), the early signs of inflation are beginning to appear.

However, these signs have hardly rubbed off on gold. It seems that 332 is the upside barrier, and every time gold approaches that level -- selling comes in. But the gold stocks are acting fairly well. You have to wonder, are the stocks in their own world, or are they discounting a gold rise ahead? My guess -- there's a rise ahead for gold. Suggested song for gold-philes, "Somewhere, over the rainbow --- "

Listen to this from the March 1 Barron's: *"According to Fred Kalkenstein of Janney Montgomery Scott, a long-time observer of monetary trends, the Fed is pumping up liquidity at a rate unprecedented in his experience. The latest numbers go right off his charts, which date back to 1969. Adjusted Fed credit, the St. Louis Bank's measure of how fast the Central Bank is expanding its own balance sheet, is soaring at a year-over-year rate of 15.2%. This far surpasses the 12% peak reached in early 1987, a pace that helped to bull up the stock market that year . . . To get that year-to-year growth rate up to 15%, Fed credit is being pumped up at banana-republic rates over the short term. In the past six months,*

adjusted Fed credit is growing at a 20.6% rate, according to Kalkenstein's calculations. And over the past three months -- approximately the period since the Presidential election -- Fed credit is exploding at a 27% annual rate."

Russell comment: Yep, the Fed has been on an all-out pumping binge. In the last year the Fed has added $36 billion in bonds to its holdings. When the Fed buys bonds it is monetizing the debt, and it's inflationary.

The amazing fact about all this Fed monetary action is that it has not set off a booming economy and it has not set off rampant inflation. Why not? Ah, that's a bit of a mystery.

In answer, I have to think that there is validity in the so-called Kondratieff or "long wave" theory. That's the theory that states that a 50-60 year cycle exists, and when the long wave turns down the cycle exerts a powerful deflationary effect (probably generated by a top-heavy edifice of debt).

Right now the US is running on an economy that is being supported by deficits of over $1 billion a day. That kind of deficit-financing would have been wildly inflationary 20 years ago or even 10 years ago. Not so today. Today 10.5% of Americans are receiving food stamps, business is sluggish, housing and auto sales are uninspiring, and unemployment is running at a 7% rate (Sindlinger says it's above 10% and I believe him).

So the Fed feels safe regarding inflation, despite its own almost frantic efforts to "pump up" the economy. I have no doubt that the inflation-barometer that the Fed is focused on is GOLD. The Fed must feel that as long as gold sits in the 330 area, all is well, and that they can pump and attempt to re-flate the economy to their heart's content. Let gold start moving up, and it will be another story.

But the fact remains that with all the Fed's pumping and with the US running on deficits of over $1 billion a day, inflation has still not started up, nor has the US economy looked anywhere near as healthy as it did during the "good old days" of the 1950s or '60s.

The questions I keep asking myself are: "How long can the Fed keep pumping without it showing up in the inflation figures?"; second, "How long can the pumping go on without it impacting either on gold, the dollar or both?"; and the final question, "If the dollar starts to slide in a big way, or if gold starts to climb, will the Fed be forced to tighten rates?" This is the biggest question of all, because if rates start up, bonds will go down, and the stock market (which has been living off low rates) will be heading down as well. All this will be happening with the public loaded up to its eyeballs with stocks and bonds.

THE ECONOMY: I'll admit it, I have some doubts about the strength or lasting power of our current "economic recovery." Unemployment remains stubbornly high, car sales are unimpressive, new homes sales are sticky (January's sales were down a huge 14%), industrial and commercial loans are near their lows, and the broad M-3 money supply has actually gone minus on a year-to-year basis.

Ed Hyman (*ISI Group*) in his latest mailing shows a chart of the M2 money supply growth rate, and he shows that the growth rates have correlated with the growth (or declines) in the economy. But now we see a fourth dip in the M2 growth rate, and Ed has placed a question mark on the chart. He comments: "As a result of this weak money growth, the economy could slow this spring."

Note: A great deal was made of the February employment figures which showed that 365,000 people were added to the work force. The only problem is that 90% of those people were part-time workers. Companies find that hiring "temps" (temporaries) or contractors saves them a lot of money. Also, it is cheaper to put workers on overtime than to hire new workers with all the paperwork and extra benefits that hiring new workers entails.

CURRENCIES: The movement of the currencies may provide one of the best and most sophisticated hints as to what's coming up. A major force on the currencies is the relative strength of the various economies. One of the reasons for the recent strength in the dollar vs. the Euro currencies has been the widely-held view that the US economy is heading up while the European economies are heading down.

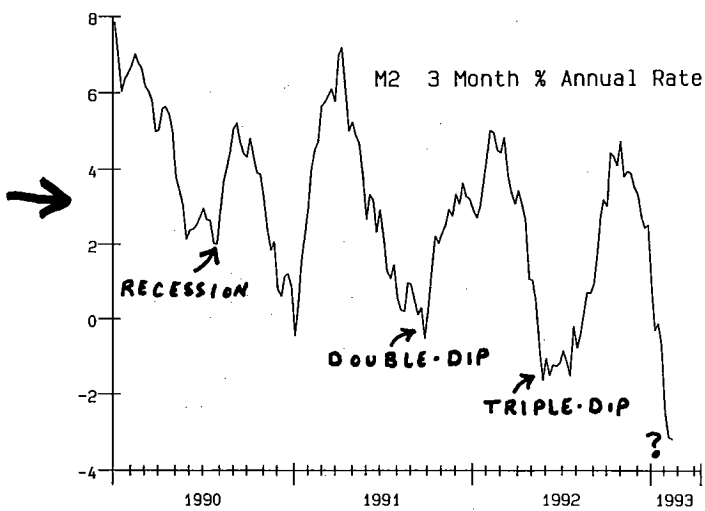
But even here the picture is far from clear. The trend worldwide is for lower interest rates (and this even includes Germany). With the bullish forces of declining interest rates, the German stock market has just risen to highs for the year. The D-mark may have bottomed out in the 59-60 area. The dollar, on the other hand, may have topped out at around 95 on the Dollar index, although it is really too early to tell.

There's no question about the poor sentiment and rotten business conditions in Europe. According to the March 1 *Financial Times* (of London), "Continental Europe's big company bosses have written off 1993; most expect no improvement in the economic climate until next year. This is the common theme running through conversations with leading executives over the past week. Their eyes are fixed on Germany, Europe's largest economy and one facing some of the most difficult problems over the next few years." With the European auto market sliding, Opel's CEO Herman states, "Consumer confidence is in a free fall."

THE CLINTON ECONOMIC PACKAGE: I keep promising myself that I won't write any more about the Clinton plan for America, but important comments keep appearing. Furthermore, it seems to me that the US public is slowly but surely having second thoughts about all those new taxes ("contributions"), and they are to some extent cutting back on their enthusiasm for the Clinton program.

Many well-known columnists and economists are also expressing doubts about the Clinton program. I include two items below, the first is from Christopher Byron's column in *New York* magazine (Mar. 8).

> JUDGING FROM THE FAWNING MEDIA COVERage of Bill Clinton's budget plan, the president's package of higher taxes and spending is exactly the elixir needed to reverse the economic legacy of the eighties. As the New York *Times* editorialized last week, the president "has put forward a credible, honest plan for government, after twelve years of less-than-benign neglect, to help put America's economic house in order."
>
> Really? Have the media been reading the same budget plan that Bill Clinton actually unfurled before Congress two weeks ago?
>
> In his speech to Congress, the president portrayed his budget as being free of



smoke-and-mirrors deceptions, and there is no doubt that the document is based on more credible economic assumptions than the pie-in-the-sky growth forecasts of the Office of Management and Budget under both Ronald Reagan and George Bush.

But so what? The document's basic accounting underpinnings remain as tricky and deceitful as those of any budget before it. This budget not only continues the venerable sleight of hand of calling tax increases spending cuts but distorts income levels to make people appear richer than they are by including make-believe money like "the imputed rent of owner-occupied housing" in family income. Beyond all that, the budget craftily takes credit for at least $59 billion in deficit cuts that were already required by law under the 1990 Budget Enforcement Act, otherwise known as the Budget Summit deal between George Bush and Congress

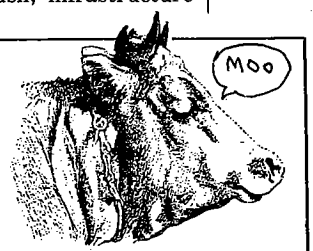
This piece is from *Business Week's* Paul Craig Roberts (Mar. 15):

Clear your head of any illusion that President Clinton's budget plan is going to stem the flow of red ink. The business leaders and politicians who are prattling on about how Clinton's plan is going to lower interest rates and free up funds for investment are apparently unaware that the plan itself says it would add $916 billion to the national debt over the next four years. That's $183 billion more than the cumulative deficit of Reagan's first term and $238 billion more than his second term. Moreover, Reagan cut tax rates and built up defense. In contrast, Clinton is raising taxes, cutting defense, and still adding the equivalent of 5½ years of Reagan deficits to the economy in only four years.

Clinton's "honest budget" is just another sham. Higher taxes on Social Security income, user fees, and price controls on doctors and hospitals are all counted as spending cuts. The primitive tax methodology of the plan assumes that higher income-tax rates will produce no modification in anyone's behavior, that higher energy taxes will not raise production costs and lower profits, and that consumer spending, business sales, and employment will all remain unaffected. If interest rates fall, it will be because aftertax incomes and profits are down and because pinched household and business cash flows will not support any new borrowing.

VANISHED PAYOFF. If Clinton's plan represents change, I'll eat every page of it. It mirrors George Bush's 1990 budget plan: Raise the top income-tax rate (Bush from 28% to 31%, Clinton from 31% to 36% or 40%); raise energy taxes (gasoline for Bush, broad-based energy for Clinton); and pump up public-works spending (transportation for Bush, infrastructure for Clinton).

INVESTMENT POSITION: It's still a bull market -- therefore the bull stays in the box. The "buying stampede" is still in force, and it will remain in force until there's a one point or more drop in the advance-decline ratio.



You really have to have faith in order to buy stocks here, at least to buy them in any quantity. The strongest market in the world at this time appears to be Hong Kong, which has been hitting new highs. At various times I have mentioned Hong Kong stocks I like. The winner, so far has been Hang Seng Bank.

The fact is that buying stocks when general market valuations are this high is tantamount to shooting craps. You may win, but the odds just aren't that good. Let me put it this way. When you are paying $36 for every dollar of S&P dividends, you are paying through the nose. With these valuations, the odds are high that a year from now almost all stocks purchased here will show losses.

There is another negative factor, and that's the so-called "Presidential Cycle." Usually stocks decline in the year or so following a presidential election. The reason is that the president, following his election, usually institutes a series of unpleasant laws (unpleasant for corporate shares, that is). This year would seem to be no exception.

So all in all, I feel that this is a good time to play it safe. You don't make money (and you don't avoid losses) by doing what everybody is doing. And everybody has been putting their dollars into stocks and bonds at the extraordinary rate (I'm talking about mutual funds) of $8 to 10 billion a month.

Special Case: I've been recommending Hong Kong stocks for over a year. One that I have repeatedly recommended is Hang Seng Bank (ADRs). The stock has doubled since I first recommended it, and I still like it. This squib from the *International Herald Tribune* tells the most recent story. Hang Seng Bank has 129 branches in Hong Kong, and I feel, is well situated to reap the benefits of the booming economies of Hong Kong and southern China.

Hang Seng Bank Profit Rises 26%

AFP-Extel News

LONDON — HSBC Holdings PLC said Thursday that its Hang Seng Bank Ltd. unit's profit rose 26 percent, to 5.7 billion Hong Kong dollars ($737.3 million) in 1992, from 4.5 billion dollars in 1991. Earnings per share rose to 3.83 dollars from 3.04 dollars.

The company plans a final dividend of 1.17 dollars a share and a special dividend of 27 cents a share — for a total for the year of 2 dollars a share, up from 1 dollar in 1991 — and two stock dividends totaling three new shares for every 10 shares held. Midland Bank PLC, also owned by HSBC, posted sharply higher profit Wednesday.

NOTES & QUOTES: Clinton in his pre-election blather promised that he would present an honest budget and lower taxes for the middle class. That isn't what happened. I guess the technique is to say anything you want as long as it gets you elected. But what really amazes me is this -- what in the world made the American public accept the "new" Clinton economic program, a program that is totally different from the program Clinton ran on during his election campaign? Bush told only one lie (he raised taxes, for which the voters never forgave him). But Clinton told us a pack of lies, and wants to give us the biggest load of tax increases in history (for which I will never forgive him). Again I ask, "How could Americans swallow the new bigger lies? How could they accept the big switch?" Or is Clinton just a helluva lot better salesman than George Bush?

* *

Business Week (Mar. 8) can't understand why Greenspan is kissing up to Clinton (they speculate that maybe he's worried about the independence of the Fed). As for Greenspan sitting next to Hillary at the State of the Union affair, they write, "It's a signal that many Fed officials wish he hadn't sent. Members of Greenspan's board privately call the Clinton package 'lousy' and worry about the widespread impression that the Fed will back the President with easier money."

* *

I don't care what she wants, and I don't care what every syncophantic newspaper does, I'm going to call her Hillary or if I'm in a formal mood maybe Hillary Clinton. Adding the Rodham takes up too much space, and besides, Hillary was the same person before as after her hubby was elected president, so why not use the same name? Hillary, Hillary, Hillary, so there. Oh yeah, I'm not going to call him William Jefferson Clinton either.

* *

Milestone: A government health agency just reported that the number of births to unmarried mothers rose to a record high in 1990 of 1,165,384. That's up 7% in a year and up 75% over the decade. Over one in four births are now to unmarried mothers -- the actual figure is 28%. A collapse in morality or just a different world? You know, I wouldn't even mind if these new fathers took the responsibility of taking care of their illegitimate kids. But far too many don't. In the ghettos it's considered a badge of honor to have a kid somewhere. It's almost as macho as going to jail.

* *

Poor California. First we had seven years of drought, next we got floods ("Hey, the drought is over"). Actually what California got is "all-at-once-itis." We got: (1) The big dry spell; (2) The big wet spell; (3) A massive influx of illegal aliens, producing huge medical and law enforcement expenses without producing any tax revenue; (4) A collapsing defense business, due to the end of the Cold War; (5) Population crush in our big cities, particularly LA; (6) Smog; (7) A cave-in of real estate values; (8) A giant short-fall in taxes with massive state deficits.

* *

Yes dear subscribers, it's a global economy. When I started out in this business in 1958 all I had to do was follow the NYSE with an occasional glance at bonds. Now, it's currencies, commodities, futures, bonds, foreign bonds, premiums, options, NASDAQ, Amex, Wilshire, the Russell 2000, 12 newspapers a day, and so forth. In the last Letter I listed a few of the periodicals I read. I don't know how many other advisories I get (maybe 30), but one that I really read from front to back is written by my friend, David Fuller. It's called *Fuller Money,* and this 16-page monthly provides a great overview of what's going on from the US to Britain, from Germany to Taiwan. Believe me, David knows his stock, bond and currency markets, and I value his opinion. I recommend *Fuller Money*, and you might write for a sample (*Fuller Money,* 7 Swallow St., London WIR 7HD, UK or FAX -- 011-44-71-439-4966).

* *

SPDR, the Spiders (Standard & Poor's Depository Receipts): I don't know when somebody has done this before, but now the little guy can buy an honest proxy for the S&P 500. Spiders are calculated at one-tenth the price of the S&P 500. They trade like any other stock. This is a way of buying the S&P but unlike the futures you are not buying on margin, you are not subject to an expiration date, and you do get a dividend. And you can short the Spiders. Spiders are traded on the Amex just like any other stock, and they are listed in your daily newspaper.

* *

Japan's depression has slowed down imports, but Japan still is an exporting machine. As a result, their trade balance continues to boom. The US, worried about their huge trade imbalance with Japan, wants to solve it the easy way. The "easy way" is via the currency relationship. Recently Treasury Secretary Bentsen said that he would like a higher yen. That may or may not have been the reason for the rising yen, but the yen has been climbing to new all-time highs against the dollar. The higher yen is a big detriment to the Japanese economy. Japan's foreign minister, Michio Watanabe, now estimates that there are one million Japanese workers who are seriously unemployed. Furthermore, for the first time in post WWII history, large Japanese corporations are laying off workers. The "lifetime work guarantee" has finally fallen apart.

* *

I watched Ross Perot on C-Span testifying before a joint Congressional committee, and I must say that the man talks sense. He berated the Democrats up and down, and he's starting to come down on Clinton. "The American people must have the facts. They want details -- not sound bites. And they absolutely do not want tax and spend programs first . . . with only a dream of the possibility of cuts and saving at a later date . . . If it's all spending, let's say it's spending . . . Call a spade a spade." The Dems obviously did not like Perot's remarks, and Perot was attacked by Harry Reid (D. Nevada). It's clear that Perot means to remain a political power, but it is not clear whether he wants to run in '96. If the Clinton Administration falls apart, I would guess that Perot will run in '96. In my opinion, Perot is still the only leading "politician" who is honestly addressing the issues and talking sense. He's going to be a constant irritant to Clinton. Whether the American people can stomach Perot's personality is another question. Personally, I'd take him to Clinton any day.

* *

I receive (free from publishers) an awful lot of economics books each year. Most of them I find semi-worthless, an idea or two expanded into a full-length book. But last week I got a winner, "The Death of Money" (Simon & Schuster) by Joel Kurtzman, an economist and business columnist for the *NY Times*. The basis of the book is that when Nixon detached the dollar from gold in 1971, he set off a new financial world in which the dollar (and other currencies) had no anchor (intrinsic value) except confidence and interest rates. Here are some subjects addressed by this fascinating book: Why the new speed-of-light economy is the most volatile in history. Why all information, right or wrong, influences the markets. Why Wall Street invests more of its profits in research than Detroit does. Why the electronic economy is biased against old-line manufacturing companies in favor of finance. We now live in a world of "megabyte money" which is really a non-stop, seven-days-a-week, 24-hour electronic network that links thousands of computers in places as lofty as the Fed and the trading floor of Citicorp and the Tokyo stock exchange with such lowly settings as automatic teller machines and automated gas pumps. In all, a fascinating book that is really worth reading. Face it, we're living in the new electro-money world where finance is far bigger than industry and where money sits, not in a bank vault but in a computer's memory.

* *

As if the Germans don't have enough troubles, now they have to put up with a TV program that makes fun of their prejudices. The program is "Motski," which translated means grouser. Friedhelm Motski is Germany's worst nightmare. He's a German Archie Bunker, a crusty, intolerant, and foul-mouthed retired driving instructor. And he hates everything, particularly the East Germans. On East Germany, "Your country wasn't worth a damn. You were broke and never knew what real work was. Without us Westerners, you'd have starved to death decades ago." On his brief euphoria over the fall of the Berlin wall, Motski explodes, "Who knew that behind it was one huge wreck, sitting on polluted land and inhabited by a bunch of uncivilized ingrates, Every single one of them greedy, envious and lazy."

Germans, both East and West, are in shock. The Germans, never known for their ability or desire to laugh at themselves or their prejudices, are livid. In a poll, 67% of West Germans stated that the program should be stopped. Western politicians, including Chancellor Kohl's Christian Democrats, have led the chorus of outrage.

* *

The current (Mar. 15) issue of *Forbes* makes the case that it isn't the federal deficit that's crucial, it's the percentage of the GDP that's absorbed by government. And that percentage has been rising steadily for decades and is currently at 23.5% (1992). In a phrase, *Forbes* states that "more government means less growth."

Interestingly the same article notes that "the Four Asian Tigers, Hong Kong, Singapore, South Korea and Taiwan" have about half the government share of GDP compared to the G-7 nations. Perhaps coincidentally, the *WSJ* (Mar. 4) contained a little squib stating, "The Hong Kong budget for the year starting April 1 offers (tax) breaks for 90% of Hong Kong's 1.6 million salaried workers by raising the tax threshold. It reduces the stamp duty on stock trading and eliminates the 30% cosmetics import duty and a racetrack entry levy." Oh yes, the *Forbes* article ends by saying that the Four Tigers "have the fastest growth rate. It's the only time in the history of the world where countries have gone from rags to riches in one generation."

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Russell comment: As far as I'm concerned, Clinton needs to do only one thing to turn this half-hearted, ragged, high-unemployment so-called recovery into prosperity. Dump the whole US tax system, jettison it, sink it along with the whole insane tax industry -- and institute a 16.5% across-the-board flat tax. The flat tax would be the only federal tax -- no capital gains tax, no corporate tax, no 10,000 time-consuming other taxes. Of course it

won't happen. It's too logical, to easy, and it would take too much power away from Congress and the President. What power? The power to manipulate with taxes.

Along these lines, there's a grass roots movement seeking to junk our current tax system and replace it with something far more efficient and intelligent -- **a national sales tax.** I urge all of my subscribers to make themselves familiar with CATS or Citizens for an Alternative Tax System (100 N. Brand Blvd., Ste. 502, Glendale, CA 91203). Or call (800) 767-7577 for information. I really believe that this movement for a national sales tax is a good one and a valid one. As Emerson wrote, "Nothing is as powerful as an idea whose time has come." The time has come to get rid of our current outrageous, expensive, ridiculous tax system. It's an industry that must go.

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Kevin Phillips is at it again. His 1990 book, "The Politics of Rich and Poor" created a sensation as it pointed up the disparity between the so-called "rich" of the 1980s and the middle class and poor. Now his new book, "Boiling Point: Democrats, Republicans and the Decline of Middle-Class Prosperity" is out. Phillips' first book set the stage for an unraveling of the Republican party and the rise of the Democrats. His new book points to the gathering crisis of the American middle class. They're mad as hell, and they may not take it much longer. The book also shows why conservative iconoclasts like Rush Limbaugh are now enjoying a huge and growing audience. Phillips compares the US today with 19th century Britain, a Britain that fell from power because of gross inequities in income distribution.

Russell comment: My thesis is a bit different. I believe that today's rich are the ones with assets and savings, while today's middle-class and poor are the ones who owe -- the debtors. Thus the so-called rich get richer as they collect the interest on their assets while the middle-class and poor get poorer as they pay out interest on their debts. Unfortunately, in America there are too few of the former and far too many of the latter.

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When I had my first kid (in the '50s) I had to get special permission from the hospital to have the child roomed with her mother (now they call it "rooming in" and bonding). The history of birth in the US has been one long fight for humanity vs. the ignorance of doctors and hospitals. After decades of stubbornness, the doctors finally admitted that breast feeding was far superior to bottle feeding. Next, they decided that bonding with the parents immediate after birth was extremely healthful. Last week the state of Florida took a long-needed step. They made it legal for a mother to breast feed her baby in public. The naked female breast, long forbidden in Florida, is now legal if a baby is attached to it. It's about time.

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I don't know whether it's the times or whether there are just more boiler rooms around or whether I'm widely known as a sucker, but in all the years I've been in this business I've never received so many calls from stock touts. They usually start like this: A woman's voice: "I have a call for Richard Russell, it's private and very important." I get on the phone, and a male voice starts, "Hello Rich, this is Jay Slimer from Grubmore Securities in Florida. I spoke to you a few months ago about Zingtech at 5. The stock is 19 today. But hey, not to worry, I've got something else for you that we think is even better." I answer, "Are you a friend of mine?" Surprised, he retorts, "What do you mean?" I answer, "I was a salesman for 10 years, can I tell you something?" He grunts, "Well, yeah." I continue, "If you aren't my buddy, show some manners. People who don't know me call me Mr. Russell. Try it that way, and you'll find you're a lot less annoying." He hangs up. I guess he's a mite peeved. So am I.

GOLD: I want to start this section with a few quotes from Ron Paul, former US Congressman and one of the nation's leading spokesmen for sound money. "We've been on the wrong track for nearly 80 years, with politicians driving out good money with bad. None of their promises have panned out. Every step away from gold has meant more debt, deficits, currency depreciation and business cycles.

"Establishing a new gold standard for the 1990s would not require elaborate world conferences. The US could go on unilaterally. There are any number of paths the US could take. The key is that the dollar ought to be defined as a particular weight of gold, which ought to be immediately redeemable by individuals. The dollar would immediately become the unchallengeable linchpin of the world economy, and other nations would have to follow suit to survive.

"Why is gold so hysterically attacked if it is such a good idea? Because the gold standard represents more than another scheme for monetary reform. It would require a revolution in affairs of state. Deficit spending would have to end, the debt would have to be paid or repudiated, government would have to shrink to a constitutional level.

"We cannot trust politicians or bureaucrats to run anything else in the economy. Any sector that presently experiences dislocations and instability is owned or controlled by these people. Until we get a sound currency, more volatility is on the horizon. As Ludwig von Mises explained, government management of currencies can never work, because economic laws will win in the end. The fiat money system may soon confront its own unraveling."

Russell comment: I have long wondered why Greenspan, who used to be an adherent of the gold standard, has sold out. I've come to the conclusion that Greenspan loves the power of being able to manipulate interest rates, manipulate the money supply, and manipulate Congress and the public with his periodic statements (which everyone hangs on).

Gold takes the power away from the politicians and bureaucrats. A currency connected with gold possesses its own power. If the politicians run deficits, the worth of the currency declines against gold, and it costs more dollars to buy an ounce of gold. If the politicians continue on the wrong path, there's a run on gold, and the buying power of the currency collapses. This is why the politicians hate gold. Honest money is totally sensitive to the machinations of the politicians. If they do wrong, it shows up when investors move out of dollars into the safety of gold.

Right now I feel that we are seeing the lows, the final bargain area for gold. But it is interesting that with fairly heavy recent selling of gold reserves by a few Western central banks, the sales were easily absorbed by the markets and the price has held fairly steady.

Interestingly, there has been a steady movement of gold from West to East. According to the Feb. 24 *Financial Times* of London, "China emerged as the world's largest gold consuming country last year . . . China may have consumed more than 800 tonnes of gold or more that 26 million troy ounces in 1992 . . . China probably imported 500 tonnes to satisfy demand from private gold consumers and another 35 tonnes of domestic gold production was also absorbed. China's central bank possibly bought another 300 tonnes, either for additions to its reserves or to help satisfy raging domestic demand . . . Investors are estimated to have bought about 1000 tonnes of gold last year compared with 620 tonnes in 1991 and 435 tonnes the year before. This is in stark contrast to the myth presented over and over in the media that investors are disdaining gold and that dishoarding is driving down the metal's price."

Of gold, Kemper Securities has just written that there are six reasons why we have seen the approximate bottom in the gold market: (1) Gold is inexpensive compared with the stock and bond markets. (2) It's trading near its long-term purchasing power. (3) Current production costs approximate its price. (4) Mine supply should peak near-term. (5) Jewelry demand has remained surprisingly robust despite the recession. (6) Inflation will exceed pundits' forecasts.

LATE NOTES: The public's appetite for securities continues to be voracious (they bought a staggering $18 billion worth of stock and bond funds in January). A lot of the buying has been based on ever-low interest rates, but wait, inflation is starting to pick up and bonds are sliding. The CRB Commodity Futures Index jumped up to 210 on Monday, March 15. Cattle futures now at record highs, lumber through the roof. Watch out, Bill Clinton, and stop boasting about the bond market.

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